

Indiana Deferred Compensation Committee

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MINUTES
INDIANA DEFERRED COMPENSATION COMMITTEE
NOVEMBER 20, 2003
INDIANA GOVERNMENT CENTER SOUTH
CONFERENCE ROOM D
9:30 A.M.

I. CALL TO ORDER

The meeting was called to order by Chairman Gery.

II. ROLL CALL

Members present: Mike Gery, Chairman; Jeff Heinzmann, Secretary; Betsy Burdick.

Members absent: Mike Puro, Tom Williams

III. APPROVAL OF PREVIOUS MINUTES

Jeff Heinzmann moved to approve the minutes, Betsy Burdick seconded, and the minutes were unanimously approved.

IV. SECRETARY'S REPORT

Jeff Heinzmann reported that Penn Township and Jay County Public Library have adopted the 457 Plan.

V. QUARTERLY REPORT OF MELLON CONSULTANTS- DON EIBSEN AND SALLY HILL

Sally Hill reported to the committee the status of the funds in the state's plans. A written copy of Mellon's quarterly report is available for copying and inspection at the office of the Auditor of State, 240 State House. Topics discussed in the report include:

- Mellon recommended fee share class savings for the Vanguard 500 Index, Vanguard Capital Opportunity Fund, and Domini Social Equity Index to achieve fee savings and higher returns. Jeff Heinzmann reported that these recommendations had been communicated to ING and that the share class changes, if possible, would likely be available after the fund share classes were added to ING's menu of available funds some time after January 23, 2004.
- Mellon's discussion of the AllianceBernstein Growth & Income Fund is detailed below.
- Brown Capital Management has closed its fund to new investors. This does not affect the participants in the state plan.
- Mellon is working with ING and the fund providers to see if the fees can be lowered by changing to different share classes.
- Mellon believes the lifestyle funds need to be examined and possibly rebalanced due to certain style tilts.

- Mellon believes the committee should consider making changes to the international funds. Both of the International funds in the line-up are performing very well but they both lean towards the international blend instead of international value and international growth and have significant overlap in their underlying holdings.

Mellon reported to the Committee on the individual performance of the funds in the Plan. The Plan remains very heavily invested in the Indiana Stable Value Fund.

VI. STABLE VALUE FUND- CHRIS WELKER AND STEVE CIANCI OF DELAWARE INVESTMENTS

Chris Welker and Steve Cianci of Delaware Investments presented the Committee with a report on the Stable Value Fund. The fund is balanced between Lincoln and Fidelity and the outlook for the fund is positive. A written copy of Delaware's quarterly report is available for copying and inspection at the office of the Auditor of State, 240 State House.

VII. FUND REPORTS

A. FIDELITY INVESTMENTS- BRENT HARTMAN

Bill Samuels and Brent Hartman presented a report to the Committee. The informed the Committee that like many other fund companies, Fidelity has received subpoenas from the federal government. Fidelity is also internally looking into issues such as excessive trading and market timing/late trading issues. Fidelity has not found any problems through its investigation. Fidelity has had late trading policies in place internally even though the SEC does not have any official policies concerning this issue at this time.

Fidelity added to Mellon's statements on the international funds. Both funds are performing well and Fidelity informed the committee that at the time the Committee selected the funds, Morning Star did not offers break down international funds into the blend category. Fidelity concurred with Mellon's concerns with the overlap of the two funds. . A written copy of Fidelity's report to the Committee is available for copying and inspection at the office of the Auditor of State, 240 State House.

B. ALLIANCE BERNSTEIN- MARC MAYER

Marc Mayer of Alliance Berstein addressed the Committee on the current issues the company is facing. In response to the possibility of civil charges, the company has reorganized its personnel. Mr. Mayer reassured the Committee members that the fund in the state's plan has been handled responsibly and is still performing well.

Sally Hill presented the Committee four reasons why the Committee might want to consider removing Alliance from the fund line-up. First, the investigation of Alliance has shown that the company committed a breech of its fiduciary responsibility. Second, Alliance has made wide scale company changes in upper management. Third, participants may not have the same level of confidence in the Alliance name. Finally, the possibility of cash outflows from Alliance may impact the rating of all Alliance Funds.

Sally Hill presented the Committee three reasons to keep the Alliance fund. First, Alliance is voluntarily taking action to correct the problems. Second, the growth and income fund does not seem to be affected. Finally, the manager responsible for the AllianceBernstien Growth & Income Fund is still in place.

Mr. Mayer of Alliance assured the Committee that the company puts the client's interest first, and he suggested that the swift actions Alliance had taken to change upper management and cooperation it has given the authorities are evidence of that. He stated it has been very difficult for Alliance to face the fact that the value of putting the client's interest first had not been shared by all of its employees, but that the responsible parties discovered so far were no longer with Alliance. Alliance admits that it did not live up to the highest fiduciary obligations. Now, a new team is in place and the company has a zero tolerance environment. The investigation is ongoing. Alliance has not found any instance of knowingly committing late trading, employees Market Timing their own funds, or any issues with Market Timing involving the international funds.

The Committee members asked questions of both Mellon and Alliance. The Committee agreed to table any action concerning the Alliance fund until more information becomes available.

VIII. QUARTERLY REPORT OF THIRD PARTY ADMINISTRATOR- BILL L'HUILLIER, ING

Bill L'Huillier, ING, reported on the administration of the state plans. The Hoosier S.T.A.R.T. office has not seen any major movement of participants out of the Alliance fund. The representatives have been very busy working to enroll new political subdivisions in the state's plans. ING has also been working with Mellon and the fund providers to make changes to share classes that should lower the fees the participants pay.

ING agreed to provide the Committee members and Mellon with a list of fund providers that are already in the ING system in case the Committee should ever need to make adjustments to the funds currently available in the line-up.

IX. NEW BUSINESS

The Committee requested that Mellon draft an Investment Policy Statement (IPS). To be included with the IPS, Mellon should list for the Committee things that would trigger them to suggest changes to the fund line-up. The IPS should be ready for approval at the February meeting.

Betsy Burdick moved to have Mellon report weekly on the mutual fund environment specific to the funds in the state's plan. In addition, Mellon agrees to notify the Committee members within 24 hours in there is a significant outflow of cash (5% or greater) from any of the funds in the line-up. Also, Mellon will prepare a formal report by December 15, 2003, of legal changes or policy structure concerning the mutual fund environment. Finally, Mellon will draft a proactive questionnaire for fund managers. Jeff Heinzmann seconded, and the motion was approved 3-0.

Jeff Heinzmann moved that, as soon as reasonably possible, Mellon should present the Committee members with a list of possible replacements for the Alliance Fund, and a list of possible international funds to diversify the Plan's offering beyond the two Fidelity Funds presently offered. Betsy Burdick seconded, and the motion was approved 3-0.

The Committee agreed that it would like to set a quarterly meeting schedule at the next meeting that will be held on February 25, 2004.

X. ADJOURNMENT: Mike Gery adjourned the meeting.